

**IMPROVING CREDIT POLICY OF COMMERCIAL BANKS IN THE
DEVELOPMENT OF SMALL BUSINESS AND PRIVATE
ENTREPRENEURSHIP IN THE REGIONS**

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ABSTRACT

The economic development of any country is determined by the development of small business and private entrepreneurship. With this in mind, this article analyzes the problems in the financing of business entities by commercial banks and draws conclusions.

KEYWORDS: *Loan Portfolio Management, Commercial Banks, Credit Risk Management, Setting Credit Limits, Inflation Targeting Regime, Loans.*

INTRODUCTION

The Action Strategy for the five priority areas of development of the Republic of Uzbekistan for 2017-2021 states that further expansion of crediting to small businesses and private entrepreneurship by commercial banks is one of the important tasks of the banking system [1].

Also, in the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025, the implementation of crediting only on market terms, improving the quality of loan portfolio management, adherence to moderate growth of crediting are recognized as priorities for reforming the country's banking system [2].

The above situation necessitates the need to improve the lending policy of commercial banks to small businesses.

At present, there are a number of pressing issues related to improving the lending practices of commercial banks in Uzbekistan. In particular, the level of reserve allocations to cover loan losses in large commercial banks is significantly higher than the normative level of this indicator. In addition, the amount of overdue debt on loans issued by commercial banks is large. As of October 1, 2021, the share of non-performing loans in the total volume of loans

issued by commercial banks of Uzbekistan amounted to 5.8% [3].

The purpose of the study is to develop scientific proposals and practical recommendations aimed at improving lending to small businesses operating in the regions of Uzbekistan by commercial banks.

Review (analysis) of the literature on the research topic

Theoretical and practical aspects of lending to small businesses by commercial banks have been studied in the works of foreign economists - O. Yastrebova [4], N. Figurovskaya [5], D. McNaughton [6] and others.

The scientific work of Uzbek economists A. Boymuratov [7], D. Tadjibaeva [8], K. Toshmatov [9] and others analyzes the theoretical and practical aspects of lending to small businesses operating in the regions.

ANALYSIS AND RESULTS

Branches of commercial banks of the Republic of Uzbekistan provide loans to small businesses in the regions.

Branches of commercial banks use mainly one-time lending in crediting to small businesses in the regions. Overdraft, factoring and forfeiting forms of lending are not available in the branches of commercial banks.

The solvency of small businesses is directly related to their profitability. Their profitability, in turn, depends on changes in the share of cost in revenue. In this regard, the gradual introduction of the inflation targeting regime in the country from 2020 is of great practical importance in terms of ensuring the creditworthiness of small businesses.

On September 5, 2017, due to the liberalization of currency relations, the national currency, the soum, was sharply devalued, that is, the rate of devaluation almost doubled. As a result, the costs of small businesses related to the repayment of loans in foreign currency have increased. This, in turn, created the need to offset the costs associated with repaying foreign currency loans. The Decree of the President of the Republic of Uzbekistan dated October 27, 2021 No. PP-5268 "On additional measures to reduce the burden on businesses to fulfill their credit obligations in foreign currency." According to it, The procedure for providing compensation by the State Fund for Entrepreneurship Support to cover interest expenses on the part of the equivalent of business entities that have existing agreements on compensation for loans in foreign currency from commercial banks in the national currency, the interest rate does not exceed 1.75 times the base rate of the Central Bank, but not more than 5%. Over the past three years, more than 15.7 trillion soums of soft loans have been allocated under the Family Entrepreneurship Development Program, which has enabled more than 633,000 families to start their own businesses and earn a living. In other words, on average, 94 out of every 1,000 households in the country have set up their own businesses under these programs.

In terms of regions, a relatively high level of housing coverage under government programs was observed in Navoi (230 out of a thousand households), Namangan (207), Syrdarya (162) and Jizzakh (124) regions.

In 2020, more than 6.1 trillion soums of soft loans have been allocated for 215,000 projects under family business development programs. Including:

- In the framework of the program "Every family is an entrepreneur" about 184 thousand people and businesses will receive a total of 4.8 trillion soums;

- 785.7 billion soums were allocated for about 25,000 projects within the programs aimed at developing handicrafts, expanding the activities of farmers, dehkan farms and landowners, providing employment to local governments and the population;

- 427.8 billion soums to 1,818 projects for financial support of youth business initiatives and projects at the expense of “the Youth is Our Future” Fund;

- Loans in the amount of 95.7 billion soums were provided to 4,615 projects at the expense of the Public Fund for Women and Family Support to ensure women's employment, improve working conditions, especially the involvement of young girls in family and private entrepreneurship and crafts in rural areas.

2.5 trillion soums (41%) of loans allocated under the Family Entrepreneurship Development Program fall to legal entities and individual entrepreneurs, 3.6 trillion soums (59%) to self-employed individuals.

In 2020, 40% of loans under these programs were provided by Agrobank, 36% Xalq Bank and 24% by Microcreditbank.

In order to support the population and businesses facing financial difficulties due to the coronavirus pandemic, the repayment period of 1.1 trillion soums of loans under their programs has been extended for 6 months (until October 1, 2020).

In addition, based on the results of field studies and monitoring, in order to create more convenience for the population and businesses in the framework of family business development programs and to simplify the allocation of loans to them:

- The practice of approving the list of suppliers of goods and services (except for pedigree livestock) was abolished;

- It was determined that the conclusions of the district (city) Family Business Support Centers were sufficient for the allocation of loans.

Although the measures taken to prevent the spread of coronavirus infection in the country in March-September 2020 have been strengthened, special attention was paid to their timely lending, taking into account the seasonality of projects funded under the program. In particular, in May 2020, loans amounted to 489.0 billion soums, while in June and July the loan allocations increased significantly compared to other months.

1.3 trillion soums of loans allocated under the programs were directed to the development of animal husbandry, 1.9 trillion soums to the production sector, 1.3 trillion soums to the establishment and development of greenhouses and 2.6 trillion soums to poultry, horticulture, rabbit breeding and handicrafts. As of January 1, 2021, the volume of loans allocated under the programs, which has become a problem, amounted to 179.8 billion soums, or 1.4% of loans in this area.

- 144.9 billion soums on loans allocated under the program "Every family is an entrepreneur" (the share of total loans in this area is 1.5%);

- 7.3 billion soums (0.5%) on loans allocated under the program "Youth is our future";

- 4.3 billion soums (1.4%) on loans provided by the Fund for Support of Farmers, Dehkan Farms and Landowners;

- 1.7 billion soums (1.6%) on loans provided by the “Employment Promotion Fund”;

- 3.2 billion soums (2.1%) on loans allocated from the "Funds under local governments";

- 14.6 billion soums (2.3%) on “development of handicrafts”;
- Problem loans worth 2.8 billion soums (1.2%) on loans from the Public Fund "Support for Women and Families".

CONCLUSIONS AND SUGGESTIONS

In our opinion, in order to improve the lending policy of commercial banks of the Republic of Uzbekistan to small businesses in the regions, it is advisable to take the following measures:

1. To increase the role of documentary letters of credit and bank guarantees paid by loans of commercial banks in increasing the export potential of small businesses operating in the regions: first, it is necessary to organize special training courses for employees of branches of commercial banks and business entities operating in the regions on the use of documented letters of credit and guarantees of commercial banks; secondly, it is necessary to establish a guarantee of the quality of goods exported by foreign banks to foreign banks; thirdly, banks should not require businesses to deposit the amount of the guarantee.

It should be noted that branches of commercial banks in the country do not have the right to guarantee. Therefore, they must timely submit the documents related to the provision of collateral to the head office of the bank.

Guarantees of commercial banks on exported goods should be issued to business entities whose credibility is not tarnished. This is due to the fact that in practice, some businesses have committed illegal acts in the export of their products. As a result, export earnings did not reach the country.

Commercial banks of the Republic may use their foreign representative banks to support the process of using documentary letters of credit of foreign banks to pay for goods exported from the regions.

At present, the Higher School of Business and Entrepreneurship under the Ministry of Economic Development and Poverty Reduction of the Republic of Uzbekistan organizes training courses for business entities operating in the regions. However, these training courses do not, firstly, cover topics related to documented letters of credit and bank guarantees; secondly, employees of branches of commercial banks were not involved in these training courses.

For Business and Entrepreneurship Training courses for Business and Entrepreneurship only deal with opening bank accounts and obtaining loans related to banking services.

The commercial banks of the country have not paid attention to ensuring the independence of branches in conducting banking operations since their inception. In particular, there is no independence of branches in issuing loans and conducting foreign exchange transactions. For example, bank branches are not authorized to open a documented letter of credit. They just draw up the relevant documents and send them to the head office of the bank.

Also, branches of commercial banks do not have the right to provide guarantees.

However, employees of branches of commercial banks work directly with customers. Therefore, they must have sufficient knowledge and practical skills on the types and forms of documented letters of credit, types of bank guarantees and the procedure for their use.

Branches of a commercial bank can provide quality consulting services to customers after having sufficient knowledge and practical skills in the use of international forms of settlements.

It should be noted that the knowledge and understanding of business entities on the practice of financing foreign trade activities is insufficient. Most businesses have not studied foreign trade at all in secondary special and higher education institutions. Therefore, it is advisable to organize training seminars for them on foreign trade finance.

The issues of financing foreign trade are studied in some disciplines taught at some universities in the field of economics. For example, in the disciplines of "International Monetary Relations" and "International Monetary Operations and Settlements" taught at the Tashkent Financial Institute and the Tashkent State University of Economics, the issues of foreign trade financing, the use of international forms of settlement are studied in separate topics. However, the issue of the quality of teaching these subjects is on the agenda. The student's sufficient theoretical knowledge and practical skills in these disciplines directly depends on the level of knowledge of professors and teachers who teach these disciplines.

2. In order to increase the volume of loans issued by commercial banks to small businesses operating in the regions:

First, it is necessary to ensure a balance between the growth rate of the amount of reserve allocations to cover losses from loans and the growth rate of credit flows;

second, it is necessary to increase the accuracy of assessing the liquidity and financial stability of small businesses;

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fourth, it is necessary to ensure a balance between the growth rate of interest income on loans to small businesses and the growth rate of loans;

Fifth, credit risk management, setting credit limits and setting up a contingency reserve for credit risks should be improved through a stress-differentiated approach to lending to small businesses.

3. It is necessary to separate unsecured loans from small banks with a stable cash flow and high solvency by commercial banks..

As a result, first, the costs associated with the assessment and registration of the collateral are reduced; second, the volume of loans to small businesses will increase.

At present, there is no practice of selecting small businesses with a stable cash flow as a separate group of customers and providing them with unsecured loans. This will hinder the increase in lending to the industry. In addition, the formalization of the loan collateral increases the costs associated with lending to the borrower. In addition, there are inconsistencies in the agreement between the supply and the loan marginal value (the level of the loan relative to the value of the loan).

It should be noted that in the practice of our country there are no internationally recognized highly liquid collateral (gold, customer-owned land, government securities, corporate securities guaranteed by the government). In such circumstances, it is important to focus on relatively easy-to-sell collateral. This is because the prolongation of the terms of sale of collateral has a negative impact on the financial condition of the commercial bank.

4. In order to increase the creditworthiness of small businesses, first of all, it is necessary to increase the turnover of inventories and receivables; secondly, it is necessary to ensure a stable level of the share of cash in their current assets.

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